Lombard Credit

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Abstract: Credit is a term that comes from ‘Credere’ and includes a meaning like ‘trust’ in itself. It is defined either as lending money to somebody, or accepting giving property to somebody in condition to get its cost soon, or guaranteeing to perform goods or services. In essence, credit is an operation risky for the bank. Thus, administration of credit risk is one of the most important problems in banking. Risk with the meanings such as; time, trust, and risk of not being paid, constitutes the main features of the credit. It is probable that real or legal entity to ask credit may not be trustworthy or not to pay the credit to be used back. So, in order to minimize the risk of this credit to be used by the client, banks takes measures to guarantee returning this cash back. This credit called as ‘Promissory Note and Stock Note’ in Turkish Law and ‘Lombard Credit’ in western Europe banking system is a credit in cash in essence. The word ‘advance’ is used to stress loan given in the form of promissory of stock to be short term. In loan, current account and pledge contract features are presented as together and intermingled. Today, these credits, in which pledge is given in return to advance payment, are having grate importance economically. Bank serves easier conditions to the client in giving the credit and gave refreshment for their client in their temporary economical straits. The process is exemplified in detail.

INTRODUCTION

Definition of Lombard Credit:

Promissory and Stock Note Advance: The word ‘Bank’ comes from ‘Banco’ which means row, desk in Italian. Lombardians are the group of people who helped Europeans to set up a bank. Lombardy bankers were very famous. Commercial Banking is started in England by some Italian (Lombard) usurers at 13th century in the middle of London where now called ‘Lombard Street’ by giving services to some British entrepreneurs[1].

This credit known as promissory note or stock advance in Turkish Law is first applied by the bankers living in Lombardy a city in Italy. In Western European banking system, it is called as ‘Lombard Credit’. This is a credit in which debtor has to give something with or without promissory note as security for his loan to the bank[2].

Based on their features, credits are consist of three groups, namely; Credits in Cash, Credits Not in Cash and Property Credits. Promissory Note and Stock Advance are credits in cash.

Cash can either be in Turkish or Foreign Currency. Loans at Credit in Cash can be in the forms of; promissory note and purchase or their discount, advance in reply for promissory note or properties, opening of advance acridity in reply for promissory note and discount or in other forms[3].

Usage of the word ‘Advance’ may cause wrong meanings. Because it is the pre-payment of debtor for a loan that is to be realised in the future. In other words, it is not a loan given to a person for it will be entered into the account in reply to a dept. Borrowing is a Causa Credendi and Advance is a Causa Solvendi payment. However, the word ‘advance’ in promissory note or properties advance means the loan is for short term, the loan will be paid back when the property pledged is put up for sale, the dept will be paid back, merely the debtor has advance in return to the property or the price of the property he pledged from the bank[4].

Borrowing money credit guaranteed by pledging real estates, valuable documents or claims are called promissory note or stock advance. It works as current account or fixed term loan contract. Loan, current account and pledge contract features are present together and intermingled[5].

Advances in return to promissory notes supply an important income to the institution, the bank, in terms of mediating the collection of promissory note. In advance procedure which works as current account, the client can get how much money he wants from his account and overtake the interest of money he gets.

Stock note advances in the form of current accounts are subjected to 87-99 numbered Turkish Law of ‘Current Accounts’. If the procedure is with definite terms, it will be subjected to ‘Loan Agreement’ conditions of Low of Loans.

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Its Legal Features: Advance credits in return to promissory notes are, the credits that are taken under guarantee by the endorsements of exchange promissory notes, that are arisen from real commercial operations and operations due date of which haven’t arrived, and used as Indebted Current Account[6]. When 89-99 conditions of Turkish Trade Law are applied in Current Account, in pledge, related conditions of Turkish Financial Law is applied.

Advances in return to promissory note are the credits based on conveyable pledge and which is in the form of current account. A type of conveyable pledge is pledge on valuable document. Promissory notes written for the bearer are pledged in condition for giving it to the payee. In the pledge of other valuable documents, if they are written on a condition, it is endorsed and if it is written under the name of somebody, this actions legal collection is transferred and delivered. Claim without promissory note or attached to ordinary promissory note is rarely pledged and its advance is taken. Advance credits through the pledge of securities like bill of exchange, bono, debenture bond, share and bank bono are more common. For this reason, pledging on securities is easier and the convenience to transfer it to cash is the reason why it is preferred.

Advances in return to promissory notes are the credits based on personal guarantee namely commercial promissory notes. The principle of this formality is giving advances to the bank for commercial promissory notes given to the bank because of the pledge in stead of entering collection into the account in due date. For the guarantee of this credit, credit with pledge endorsement is necessary in the back side of this promissory note by the bearer. In the related conditions of Turkish Trade Association, it is stated that bono and bill of exchange can be transferred through endorsement and delivery. One of written declarations such as ‘Equivalent is Guaranteed’ or ‘Equivalent is Pledge’ by the bearer completes the condition stated in Turkish Financial Law by the endorsement and delivery of these promissory notes. It is written as: Please pay the endorsement to “T.R. XXX Corp. XXX Unit. Equivalent is pledge.” (Date, name – surname of the endorsed and Commercial Name)[7].

Promissory notes given to bank in return to the guarantee of the credit do not possessed by the bank and stays in the form of guarantee. Merchants have the right to get the endorsement and bono they transfer to their customers by credited sales to the bank as pledge by the advance accounts they have opened and get them in definite margins before the due date. For they are both credits in the form of guarantee based on pledge, there are similarities between discount and advances in return to promissory note in terms of their concern about guarantee in personal credit and possibility that realises getting their claims related to credited sales before the due date[8]. The point they are not similar is that promissory notes do not possessed by the bank just like in discount-purchasing operations and stays as guarantee.

In practice, bono is found to be the promissory notes which are subject to promissory notes in return to advances at much. The reason that they are having financial value for being revealed from financial operations, they serve as guarantee function for the bank. Merchant to open an advance account in return to promissory note would have both protected and collected them based on a certain commission apart from having credit. To the clients they opened advance, the bank gives the attitude to deliver all their promissory notes. So, banks would be able to figure out weather or not they are able to collect these notes and essence of their financial operations. Advances in return to promissory note supplies income to the bank in the forms of interest and commission because of credit and their status in this process as a mediator.

With this credit, individuals in economical straits have the right to display their promissory notes and possessions as guarantee and get credit from the bank instead of selling them. This condition is necessary for the sustainability of the financial life. Having the right to possess his possessions in one side, individuals will be able to overcome their economical straits with this way.

REFERENCES

4. TEKİNALP, 361.
6. ŞAKAR, 64.
7. ŞAKAR, 65.